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Message Text

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73
ACTION NEA-10

INFO OCT-01 EUR-08 IO-04 ISO-00 AID-05 CIAE-00 COME-00

EB-04 FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 L-01

NSC-05 SS-15 STR-01 CEA-01 PRS-01 /074 W
---------- 074030
R 011327Z NOV 74
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 4420
INFO AMEMBASSY BERN
USMISSION GENEVA
AMEMBASSY LONDON
AMCONSUL ZURICH

C O N F I D E N T I A L TEL AVIV 6292

E O 11652: GDS
TAGS: EFIN, IS
SUBJECT: ISRAEL-BRITISH BANK (LONDON) LTD.

REF: STATE 236649

1. FOUR EXECUTIVES (ROBINSON, PADEN, ROWTON AND VANDEN BOSCH) REPRESENTING NORTH CAROLINA NATIONAL BANK, UNITED CALIFORNIA BANK, AND HARRIS TRUST & SAVINGS BANK WERE IN ISRAEL OCT 26-31. THEIR PURPOSE IN MAKING SECOND TRIP TO ISRAEL WAS TO DISCUSS "BROADER ASPECTS" OF IBB FAILURE WITH ISRAELI MINISTERS WHICH THEY HOPE WILL RESULT IN GOI DECISION TO MAKE FINANCIAL CONTRIBUTION TO IBB SETTLEMENT. AS HAS BEEN REPORTED, THESE BANKS REPRESENT TWELVE U.S. AND TWO CANDIAN BANKS WHOSE TOTAL CLAIMS AGAINST IBB LONDON EXCEED DOLS 20 MILLION.

2. BANKERS HAD INDICATED TO EMB BEFORE ARRIVAL THAT THEY EXPRESSLY WANTED TO SEE FINMIN RABINOWITZ AND MINISTER OF JUSTICE ZADOK WHO, ALONG WITH CENTRAL BANK GOVERNOR SANBAR, FORM CABINET SUBCOMMITTEE RESPONSIBLE FOR
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POLICY TOWARD IBB. GETTING APPOINTMENTS, HOWEVER, PROVED

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EXCEEDINGLY DIFFICULT. ONLY AFTER REPEATED REPRESENTATIONS
ON BEHLAF OF AMB BY EMB AND AFTER FONMIN ALLON AT AMB'S
REQUEST PERSONALLY CONTACT RABINOWITZ DID MINISTERS AGREE
TO RECEIVE THEM AND NOT UNTIL OCT 29. EMB OFFICERS
ATTENDED BOTH MEETINGS AT REQUEST OF BANKERS. WITH RABINOWITZ,
BANKERS TOOK COURAGEOUS BUT VERY TOUGH POSITION. THEY SAID THAT
THE "WOULD NOT HAVE DOOR SLAMMED IN THEIR FACES." ISRAELI
AUTHORITIES DID HAVE RESPONSIBILITY FOR LONDON SUBSIDIARY WHICH
WAS OWNED AND CONTROLLED FROM TEL AVIV, AND OPERATED AS ESSENTIAL
PART OF IBB'S INTERNATIONAL OPERATIONS. THEY SAID THAT BANK OF
ISRAEL HAD LONG KNOWN OF IBB IRREGULARITIES BUT DID NOTHING
ABOUT IT. IF BOI HAD ACTED RESPONSIBILY, EVEN AFTER STATUS
OF IBB LONDON WAS CHANGED FROM BRANCH TO SUBSIDIARY, LOSSES
OF DEPOSITORS COULD HAVE BEEN MITIGATED.

3. BANKERS POINTED TO SHARP CONTRAST IN GOI'S ATTITUDE TOWARD
IBB AND THAT TOWARD INTERNATINAL CREDIT BANK, GENEVA. GOI
DENIED ANY RESPONSIBILITY FOR FORMER, WHILE PRIMIN
AND RABINOWITZ HAD PUBLICLY ANNOUNCED THEIR PERSONAL INVOLVE-
MENT IN EFFORT TO SALVAGE SWISS AND GERMAN-OWNED GENEVA BANK.
BANKERS NOTED THAT IN THEIR TALKS WITH BANK OF ENGLAND IT WAS
MADE CLEAR THAT BOE WOULD PARTICIPATE IN SETTLEMENT OF IBB,
DESPITE ITS "CARDINAL RULE" NOT TO SUPPORT FOREIGN BANK SUB-
SIDIARIES IN UK. THEY WERE CONFIDENT THAT SATISFACTORY
SETTLEMENT COULD BE REACHED IF BOI AGREED TO PARTICIPATE IN
EFFORT.

4. IN RESPONSE RABINOWITZ SAID THAT HE WISHED TO CORRECT
IMPRESSION THAT GOI HAD DECIDED TO INTERVENE IN GENEVA BANK
CASE. SO FAR NO DECISION HAS BEEN TAKEN TO CONTRIBUTE
FINANCIALLY ALTHOUGH GOVT HAS USED ITS GOOD OFFICES TO
TRY TO FIND A SOLUTION. HE STRESSED THAT GOI INTEREST THERE
WAS TO PROTECT ISRAELI DEPOSITORS, NOT TO SAVE GENEVA BANK ITSELF.
WITH REGARD IBB LONDON, RABINOWITZ SAID THAT GOI'S HANDS WRE
TIED SINCE IBB LONDON WAS A BRITISH BANK AND NOT CONTROLLED IN
ANY WAY BY GOI. HE SAID THAT "CENTRAL BANKERS OF THE WORLD,
INCLUDING MR BURNS," BELIEVED THAT CENTRAL BANKS ARE RESPON-
SIBLE FOR BANKING ACTIVITIES ONLY WITHIN THEIR RESPECTIVE
COUNTRIES, NOT OUTSIDE. HE SAID THAT WHILE HE PERSONALLY
REGRETTED DEVELOPMENT VERY MUCH AND WAS AWARE OF IMPLIATIONS
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FOR ISRAEL'S RELATIONS WITH U.S. BANKING COMMUNITY, HE "DID
NOT SEE ANY POSSIBILITY OF CHANGING APPROACH OF GOI TO THIS
QUESTION." HE NOTED THAT IT WAS NOT MERELY QUESTION OF SATIS-
FYING TWELVE U.S. BANKS BUT RATHER SEVERAL DOZEN WITH DEPOSITS
EXCEEDING DOLS 100 MILLION. RABINOWITZ CONCLUDED BY SAYING THAT
WHILE MATTER WOULD CONTINUE TO RECEIVE HIGH LEVEL ATTENTION
HE SAW NO POSSIBILITY OF A CHANGE IN ISRAELI POLICY.

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5. U.S. BANKERS CONCLUDED BY STATING THAT THEY HAD NO CHOICE
BUT TO CONTINUE THEIR EFFORTS TO OBTAIN SATISFACTORY SETTLE-
MENT. THEY WANTED TO REITERATE THAT PROBLEM WENT BEYOND
PURELY FINANCIAL ASPECT AND INVOLVED CREDIBILITY AND
RELIABILITY OF ISRAELI FINANCIAL COMMUNITY. U.S. BANKS
WOULD INEVITABLY CHANGE THEIR ATTITUDE TOWARD DOING BUSINESS
WITH ISRAEL. ONE BANK HAD ALREADY REFUSED TO PARTICIPATE
IN FINANCING EXPORT OF SOY BEANS TO ISRAEL AND THAT "OUR
BANKS AND CORESPONDENT BANKS WILL HAVE NO CHOICE BUT TO
REFUSE TO PARTICIPATE IN FUTURE FINANCING INVOLVING ISRAEL."

6. JUSTICE MINISTER ZADOK RECEIVED BANKERS SHORTLY AFTER
RABINOWITZ MEETING (ZADOK HAD REFUSED TO SEE BANKERS UNTIL
RABINOWITZ HAD AGREED TO DO SO). HE DECLINED TO GO INTO
DETAIL ABOUT CASE MAINTAINING THAT HE WAS NOT QUALIFIED IN
BANKING MATTERS AND HAD AGREED TO MEETING ONLY AS COURTESY
AND IN RECOGNITION OF IMPORTANCE OF MAINTAINING GOOD RELATIONS
WITH U.S. HE HELD FAST TO GOI POSITION THAT IT HAS NO LEGAL
OR OTHER RESPONSIBILITY FOR IBB LONDON.

7. BANKERS DID NOT REQUEST ORIGINAL APPOINTMENT WITH GOVERNOR
SANBAR, BUT IT BECAME CLEAR THAT NO ISRAELI MINISTER WOULD TALK
TO THEM UNLESS THEY SAW SANBAR AGAIN, BANKERS THEREFORE
ASKED FOR APPOINTMENT WITH HIM. THEY HAD TALKED TO HIM TWICE BEFORE
AND HE HAD ALWAYS TAKEN ADAMANET POSITION THT BOI HAD NO
RESPONSIBILITY FOR BRITISH BANK AND THAT U.S. BANKS SHOULD
SIMPLY GET IN LINE WITH OTHER CREDITORS (INCLUDING BOI) AND
AWAIT FINAL LIQUIDATION AND DISTRIBUTION OF AVAILABLE ASSETS.
THIS TIME SANBAR PLAYED SAME TUNE, AFTER POINTEDLY KEEPING
BANKERS WAITING FOR COUPLE OF DAYS AFTER APPOINTMENT WAS
REQUESTED.

8. COMMENT : THIS SECOND VISIT OF BANKING TEAM WAS PRETTY
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UNPLEASANT FOR ALL CONCERNED. TO CREDIT OF BANKERS, THEY
KEPT THEIR COOL AND DID NOT OVERLY REACT TO STONE-WALLING BY
ISRAELIS. EMB, FOR ITS PART, WENT ALL OUT
IN ITS EFFORTS TO OBTAIN DESIRED APPOINTMENTS. IN
ANY EVENT, GOI LEADERSHIP (EMB ALSO DISCUSSED CASE WITH
PRMIN'S OFFICE) IS NOW WELL AWARE OF BANKERS' VIEW
AND THAT THEY WILL ATTEMPT TO APPLY ADDITIONAL PRESSURES TO
ACHIEVE SATISFACTORY SETTLEMENT. DIFFICULTY, OF COURSE, IS
THAT ISRAELIS ARE EXTREMELY RELUCTANT TO ACCEPT ANY RESPON-
SIBILITY IN THIS CASE IN LIGHT MAGNITUDE OF LIABILITIES. OUR
GUESS IS THAT IF U.S. BANKS DO ESCALATE TO POLITICAL LEVEL,
AS THEY THREATEN TO DO, GOI MAY OFFER SMALL CONTRIBUTION TO
GENERAL SETTLEMENT. BUT EVEN THIS IS NOT CERTAIN.
KEATING

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